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Debt Reduction: Initiatives for the Most Heavily Indebted Poor Countries

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Abstract

This report offers a broad overview of the debate concerning debt reduction for poor developing countries. It profiles the scope and structure of debt and reviews previous debt relief strategies and the current HIPC Initiative. It analyzes and compares competing alternatives endorsed by the Administration, congressional activists, NGOs, and other G-7 governments. Several key issues, such as costs, impact, and conditionality, of pending proposals are also assessed. The report will be updated to reflect new debt relief proposals and congressional debate.

Debt Reduction: Initiatives for the Most Heavily Indebted Poor Countries

Summary

Many developing nations have experienced declining economic conditions while accumulating higher levels of debt, largely owed to multilateral public lending agencies, such as the World Bank and the IMF, and to foreign governments, including the United States. For the 41 nations that have been identified as the most Heavily Indebted Poor Countries (HIPC), external long-term debt rose rapidly from less than $7 billion in 1970, to $47 billion a decade later, to $158 billion by 1990, and to $169 billion today. The largest portion — 85% — is owed to public lenders (governments and institutions like the World Bank). Although roughly half of the HIPC long-term debt is owed to bilateral lenders, only 3.7% is owed to the United States.

Since 1989, the U.S., Japan, and major European governments, recognizing that the mounting debt burden for some borrowers has undermined efforts to stimulate economic growth and to finance basic social programs, have extended a series of increasingly broad debt relief arrangements. The most recent initiative — HIPC — aims to reduce the debt burden of poor countries that have demonstrated sound economic and social policy reforms to manageable, or "sustainable" levels that can be serviced comfortably by export revenues and capital inflows. When it was launched, poor country debt relief proponents hailed the initiative for its comprehensive and integrated approach, especially the inclusion of World Bank and IMF participation, and for its objective to provide lasting debt solutions.

But after three years, only four countries fully qualified for HIPC debt reduction terms and strong international pressure built to expand and deepen HIPC terms. Critics argued that it takes countries too long to qualify, that the conditions for eligibility are inappropriate, and that the poverty reduction focus is insufficient. U.S. and other G-7 leaders forged an agreement for expanding HIPC at the June 18-20, 2000 summit in Germany, the contents of which were adopted by the World Bank and the IMF at their annual meetings in September.

Several legislative initiatives were introduced in 1999. H.R. 1095 (Representative Leach), would reform HIPC by providing debt relief more quickly, to more countries, and in greater amounts, with an emphasis on poverty reduction. Senator Mack introduced similar legislation (S. 1690), recommending that debt relief savings finance both poverty and economic reform activities. Other legislation includes H.R. 2232 (Representative Waters), H.R. 3049 (Representatives McKinney and Rohrabacher), H.R. 772 (Representative Jackson), and S. 1636, a modified companion measure to H.R. 772 (Senator Feingold).

As one of the final legislative issues of the first session, Congress agreed (H.R. 3422), to $123 million for bilateral debt reduction in FY2000 and (in H.R. 3425) to authorize U.S. support for an off-market IMF gold sale to finance the Fund's participation in HIPC. (Each bill was incorporated into the Consolidated Appropraitions Act, FY2000, P.L. 106-113.) But lawmakers did not approve an additional $847 million requested by the President for debt relief through FY2003 and barred the U.S. to use any of the $123 million this year for multilateral debt reduction and contributions to the HIPC Trust Fund.

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For the past several decades, the United States, other industrialized nations, and international financial institutions have extended considerable financial assistance, provided as both loans and grants to developing countries — with mixed results.[1] Many developing nations have experienced declining economic conditions while at the same time accumulating higher levels of debt, largely owed to multilateral public lending agencies, such as the World Bank and the IMF, and to foreign governments, known as "bilateral" lenders, including the United States, Germany, France, Great Britain, and others. Since 1989, the United States, Japan, and major European governments, recognizing that for some borrowers the mounting debt burden undermined efforts to stimulate economic growth and to finance basic social programs, have extended a series of increasingly broad debt relief arrangements.

Despite these efforts, economic difficulties for the world's most heavily indebted poor nations persist. In sub-Saharan Africa, home to most of these heavily indebted countries, after several years of improving economic performance, economic growth slowed to 2.1% in 1998 and per capita income fell by 1%. Debt is not the sole cause of this slowdown, but it is noteworthy that in 1998, total debt stock for African nations grew to about $226 billion, up from $219 billion the year before. Net foreign aid and other official transfers remained stagnant at about $12 billion in 1998, but have declined overall by more than 50% in real terms during the 1990s.[2]

A broad consensus emerged among creditor governments and public institutions, poor debtor countries, and non-governmental organizations (NGOs) that more aggressive debt relief measures — centered around the World Bank/IMF Heavily Indebted Poor Country (HIPC) Initiative — should be pursued. At their September 1999 annual meetings, the World Bank and IMF endorsed a substantial expansion of HIPC, including steps that will increase the number of qualifying countries, provide larger amounts of debt relief, potentially shorten the time required for receiving debt reduction, and strengthen the program's impact on poverty reduction. Nevertheless, questions remain on how these measures will be implemented and how donor organizations and governments will pay for the costs of a more expansive HIPC.

Many issues related to an expanded HIPC are raised in an array of executive and legislative debt reduction proposals enacted and pending in the 106th Congress. President Clinton initially proposed $120 million for FY2000 debt relief funding, a figure that was subsequently increased to $970 million (over four years) in a

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[1] For a recent analysis of the successes and failures of foreign aid, see *Assessing Aid: What Works, What Doesn't, and Why*, A World Bank Policy Research Report 1998.

[2] World Bank, *Global Development Finance, 1999*, p. 168-170.

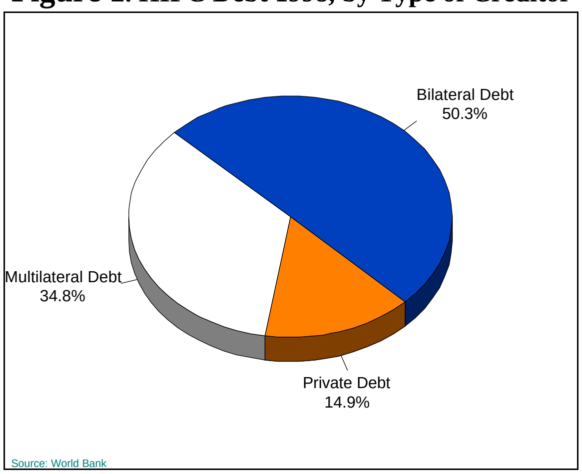
September 21, 1999, budget amendment to the Foreign Operations appropriations request. Congress approved in mid-November only $123 million of the recommendation in H.R. 3422, leaving much of the debate over funding for 2000. Congress also authorized in H.R. 3425 a mechanism that allows the IMF to revalue a portion of its gold holdings so that the Fund can pay for its costs of canceling debt owed to it by HIPC countries. (The legislation, however, allows the IMF to use only a part of the "profit" generated by the gold transaction for HIPC relief. Congressional leaders said they would review the issue in 2000 and consider Administration requests to lift the limitation.) H.R. 3425 further supports the expansion of U.S. debt reduction programs largely along the lines endorsed by the President, the G-7, and the World Bank and IMF.[3] Still pending are other congressional initiatives introduced in the 106th Congress, some of which go beyond current Administration and World Bank/IMF plans for an expanded HIPC program or which introduce different qualification criteria for debtor country participation.

This report offers a broad overview of the debate concerning debt reduction for poor developing countries. It profiles the scope and structure of debt and reviews previous debt relief strategies and the current HIPC Initiative. It analyzes and compares competing alternatives endorsed by the Administration, congressional activists, NGOs, and other G-7 governments. Several key issues, such as costs, impact, and conditionality, of pending proposals are also assessed.

Debt Profile of the Most Heavily Indebted Nations

For the 41 nations which have been identified by the World Bank and IMF as the most heavily indebted poor countries (HIPC countries), external debt rose rapidly in the 1970s and 1980s.[4] From less than $7 billion in 1970, long-term debt obligations grew to $47 billion a decade later, and to $158 billion by 1990. Debt accumulation during the 1980s was affected especially by the 1979 oil crisis, rising interest rates, and falling global commodity prices for goods developing countries produced. Debt levels have been more stable in the 1990s as private creditors scaled back on their lending and public lenders (governments and international financial institutions) shifted from loans to grant

Figure 1. HIPC Debt 1998, by Type of Creditor



[3] Congress passed both H.R. 3422 and H.R. 3425 as part of the Consolidated Appropriations Act, FY2000 (P.L. 106-113).

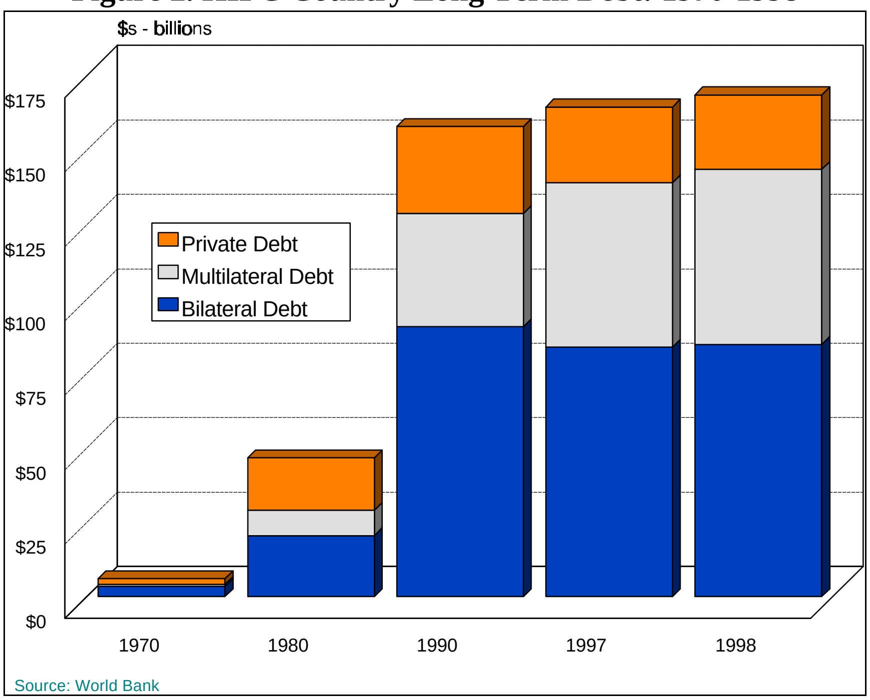
[4] Unless otherwise noted, the source for the debt figures in this section is the World Bank's *Global Development Finance, 1999.*

foreign aid. HIPC country long-term debt peaked at about $185 billion in 1995, fell back to $163 billion by 1997, but is estimated to have increased to $169 billion in 1998.

Tables 1 and 2 provide specific details on debt owed by these 41 countries, including how much debt is owed to the United States. One of the most striking characteristics of the debt burden of the HIPC countries is the large proportion that is owed to public lenders rather than the private sector. As illustrated in Figure 1, the World Bank estimates that creditor governments and institutions account for more than 85% of HIPC debt obligations. By comparison, only 28% of Latin American long-term debt is owed to public lenders. For all developing nations, the amount is 42%.

Although roughly half of the HIPC long-term debt is owed to bilateral lenders, as shown in Table 4 (page 10), only a small amount is owed to the United States:$6 billion at the end of 1997, or 3.7% of total long-term HIPC debt. For 23 of the 41 HIPC nations, outstanding debt to the U.S. totals less than 1% of their outstanding obligations. Only for a few countries — Democratic Republic of Congo, Liberia, Somalia, and Sudan — does U.S. debt represent a sizable portion of overall stock.[5]

Figure 2. HIPC Country Long Term Debt: 1970-1998



[5] U.S. Department of Treasury. Various tables.

Table 1. Debt Profile of HIPC Countries, 1997

($s — millions)

		Long-Term Debt				Long-Term Debt, of which owed to:		
	Total Debt Stock	Public & Publically Guaranteed	Private Non-Guaranteed	Concessional	Non-Concessional	Multi-laterals	US Govt	Other Bilaterals
Angola	10,160	8,885	0	2,230	6,655	234	35	2,623
Benin	1,624	1,393	0	1,265	128	871	0	519
Bolivia	5,248	4,144	426	2,965	1,605	2,681	91	1,344
Burkina Faso	1,297	1,139	0	1,077	62	1,003	0	132
Burundi	1,066	1,022	0	989	33	872	0	149
Cameroon	9,293	7,688	198	3,955	3,931	1,465	66	5,569
CAR	885	804	0	727	77	607	9	174
Chad	1,027	939	0	804	135	749	0	173
Congo, DR of	12,330	8,617	0	3,103	5,514	2,179	2,080	3,524
Congo, Rep of	5,071	4,284	0	1,554	2,730	619	58	2,774
Cote D'Ivoire	15,609	10,427	2,071	4,507	7,991	3,301	378	4,181
Equatorial Guinea	283	209	0	139	70	94	0	101
Ethiopia	10,079	9,427	0	8,633	794	2,459	90	6,523
Ghana	5,982	4,691	267	3,975	983	3,179	16	1,051
Guinea	3,520	3,008	0	2,484	524	1,557	111	1,269
Guinea-Bissau	921	838	0	666	172	387	0	451
Guyana	1,611	1,345	0	909	436	666	31	592
Honduras	4,698	3,910	259	2,287	1,882	2,303	151	1,261
Kenya	6,486	5,108	325	3,727	1,706	2,785	126	1,695
Laos	2,320	2,247	0	2,243	4	816	0	1,431
Liberia	2,012	1,061	0	585	476	405	333	132
Madagascar	4,105	3,871	0	2,679	1,192	1,661	33	2,133
Malawi	2,206	2,073	0	1,947	126	1,791	0	261

	Total Debt Stock	Long-Term Debt				Long-Term Debt, of which owed to:		
		Public & Publically Guaranteed	Private Non-Guaranteed	Concessional	Non-Concessional	Multi-laterals	US Govt	Other Bilaterals
Mali	2,945	2,687	0	2,621	66	1,453	0	1,234
Mauritania	2,453	2,037	0	1,698	339	938	7	1,068
Mozambique	5,991	5,430	45	3,385	2,090	1,626	49	3,737
Myanmar	5,074	4,640	0	4,090	550	1,171	0	3,012
Nicaragua	5,677	4,819	0	2,509	2,310	1,571	100	2,756
Niger	1,579	1,331	96	1,057	370	881	13	437
Rwanda	1,111	994	0	986	8	850	1	141
Sao Tome&Principe	261	227	0	223	4	156	0	71
Senegal	3,671	3,110	55	2,395	770	1,803	17	1,280
Sierra Leone	1,149	893	0	733	160	494	64	329
Somalia	2,561	1,853	0	1,503	350	723	431	664
Sudan	16,326	8,998	496	4,636	4,858	2,001	1,202	4,319
Tanzania	7,177	6,054	41	5,091	1,004	2,939	35	2,827
Togo	1,339	1,207	0	955	252	717	0	491
Uganda	3,708	3,202	0	2,950	252	2,399	3	723
Vietnam	21,629	18,839	0	3,209	15,630	828	136	13,138
Yemen	3,856	3,418	0	2,411	1,007	1,390	102	1,089
Zambia	6,758	5,233	13	3,797	1,449	2,227	278	2,586
Total, HIPC	**201,098**	**162,102**	**4,292**	**97,699**	**68,695**	**56,851**	**6,046**	**77,964**

Sources: World Bank, *Global Development Finance, 1999*
U.S. Department of the Treasury.

Note: U.S. debt figures include private debt guaranteed by the U.S. government.

Table 2. Debt Profile of Sub-Saharan Africa Countries, 1997

($s — millions)

	Total Debt Stock	Long-Term Debt				Long-Term Debt, of which owed to:		
		Public & Publically Guaranteed	Private Non-Guaranteed	Concessional	Non-Concessional	Multi-laterals	US Govt	Other Bilaterals
Africa HIPC countries*	**147,752**	**118,740**	**3,607**	**77,076**	**45,271**	**45,421**	**5,436**	**53,341**
Africa Non-HIPC countries:								
Botswana	562	562	0	290	232	383	15	79
Cape Verde	220	211	0	172	39	159	0	39
Comoros	197	181	0	173	8	151	0	30
Djibouti	284	253	0	252	1	136	0	117
Eritrea	76	76	0	73	3	42	0	34
Gabon	4,285	3,671	0	971	2,700	528	81	2,932
Gambia	430	407	0	394	13	326	0	81
Lesotho	660	624	0	487	137	468	0	113
Mauritius	2,472	1,187	789	344	1,632	245	3	297
Nigeria	28,455	22,361	295	1,322	21,604	4,013	871	12,074
Seychelles	149	131	0	68	63	54	0	52
South Africa	25,222	11,246	2,633	0	13,879	0	3	0
Zimbabwe	4,961	3,124	475	1,398	2,201	1,616	53	699
Total, Africa	**215,725**	**162,774**	**7,799**	**83,020**	**87,783**	**53,542**	**6,462**	**69,888**

Sources: World Bank, Global Development Finance, 1999; and U.S. Department of the Treasury.

* See Table 1 for individual country data.

Evolution of Debt Reduction Programs for Poor Nations

For the past decade, members of the G-7 have taken the lead for initiating plans to reduce or cancel public debt owed to them by severely indebted developing nations.[6] Through the Paris Club, an informal forum of creditor governments that review, negotiate, and adopt debt relief programs for poor countries, the United States, Germany, Japan, France, and others have implemented a series of debt measures. Prior to 1988, the Paris Club generally engaged only in rescheduling, but not reducing debt. This solved immediate debt servicing crises, but offered no permanent relief. In some cases, reschedulings fueled mounting debt stocks of developing nations, ultimately setting the stage for a subsequent financial emergency.

Paris Club Arrangements. Following the 1988 G-7 meeting in Toronto, the Paris Club endorsed a menu of debt relief options through which heavily indebted countries could receive forgiveness for as much as one-third of the net present value (NPV)[7] of their public bilateral non-concessional debt that was eligible for rescheduling. Eligible debt included portions that were in arrears or due in the next 18 to 24 months, but not amounts previously rescheduled. These so-called "Toronto Terms" were broadened three years later at the G-7 conference in London where creditor countries agreed to implement "Enhanced Toronto Terms" and reduce up to 50 percent of NPV of eligible poor country public non-concessional debt. Between 1988 and 1995, Paris Club members rescheduled under Toronto and Enhanced Toronto Terms about $14.8 billion of debt owed primarily by African nations.

The Paris Club further expanded debt reduction options following the 1994 G-7 summit in Naples. Under what became known as "Naples Terms," developing countries could receive forgiveness for up to two-thirds of their *total* NPV of non-concessional debt (not just the portion eligible for rescheduling). Paris Club members continue to use Naples Terms today, although for those countries which qualify, even more generous HIPC terms are applied (see below for a discussion of HIPC).

U.S. Debt Reduction Programs. The United States did not participate in Paris Club debt reduction initiatives until 1994, although independently, the U.S. forgave about $3.58 billion in poor country debt in the late 1980s and early 1990s, and an additional $10.2 billion in debt owed by Egypt, Poland, and Jordan, 1990-1995. Each of these arrangements were implemented under special authorities legislated, and in some cases, initiated by Congress:

- *Sec. 572 Debt Relief* — Section 572 of the Foreign Operations Appropriations for FY1989 (P.L. 100-461), authorized the President

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[6] Much of this discussion of the history of bilateral debt reduction initiatives is drawn from, *Africa's Debt Burden: Proposals for Further Forgiveness,* by Jonathan E. Sanford. CSIS Africa Notes, Number 189, October 1996.

[7] In evaluating a country's debt burden, analysts generally examine the debt's net present value (NPV) rather than its face value. The NPV of debt takes into account the degree of concessionality — that is, the extent to which loans carry interest rates below market levels. If a loan has an interest rate below the market rate, the NPV of debt will be smaller than the face value, with the difference reflecting the concessional element of the loan.

to cancel debt from development assistance concessional loans owed by African and other relatively least developed countries that maintained economic reform programs with the World Bank or IMF. Over a three year period, the United States forgave 100% of $2.02 billion owed by 17 African countries, four Latin American nations, and Bangladesh. As a result of this initiative, and because the United States had shifted in the early 1980s to grant rather than loan aid, a relatively small amount of *concessional* debt is still owed to the United States by heavily indebted nations in Africa and elsewhere.

- *Sec. 411 Debt* — Section 411 of the Agricultural Trade Development and Assistance Act, more commonly referred to as P.L. 480, authorizes the forgiveness of concessional food aid loans held by least developed countries that are either pursuing their own economic reform program or have programs with the IMF or World Bank. In 1991-92, the United States canceled $689 million of food aid loans for 12 African and Latin American nations.

- *Enterprise for the Americas Initiative (EAI) Debt* — Enacted in 1990, the EAI supported economic growth goals for Latin American and Caribbean nations. One element of the Initiative authorized the President to forgive concessional food aid loans to any EAI-eligible country. Through 1993, the United States canceled $875 million in debt owed by Latin American countries that did not meet the "least developed" criteria under the Sec. 411 debt reduction program. Most debt relief went to El Salvador and Jamaica.

- *Egypt Debt Forgiveness* — In recognition of the security risks taken by Egypt in signing a peace accord with Israel in 1979 and of Egypt's leadership in the Arab world following Iraq's invasion of Kuwait in 1990, the President asked and Congress approved the cancellation of military aid loans totaling $7 billion (Foreign Operations Appropriations, 1991, P.L. 101-513). Much of this debt had been incurred during the early 1980s when the United States provided most military assistance as loans bearing commercial interest rate terms.

- *Polish Debt Relief* — With the collapse of Soviet control over Eastern Europe, the United States took several steps to help the emerging states transition to democratic governments and market economies. Under a special provision in the Foreign Operations Appropriations for FY1991 (P.L. 101-513), the U.S. canceled $2.46 billion in agricultural credits owed by Poland.

- *Jordan Debt Relief* — Following the signing of an Israeli-Jordan peace agreement in 1994, Congress approved the President's request to relieve some of Jordan's debt to the United States. Through authority granted in the Foreign Operations Appropriations, 1995 (P.L. 103-306), and subsequent appropriation measures, the U.S. forgave $698 million of Jordan's debt.

Table 3. U.S. Debt Reduction, 1989-1998

($s — millions)

	Date	Sec 572	Sec 411	EAI	Paris Club/ HIPC	Special Legisl.	Total
		Debt Reduction Authority					
Grand Total		**2,051.6**	**689.1**	**840.1**	**732.1**	**10,161.1**	**14,474.0**
Africa:		**720.1**	**416.2**	**0.0**	**482.1**	**0.0**	**1,618.4**
Benin	1989-91	29.8	---	---	---	---	29.8
Burkina Faso	1991	2.4	---	---	---	---	2.4
Cameroon	1991/98	61.4	---	---	20.3	---	81.7
CAR	1994-98	---	---	---	7.0	---	7.0
Congo, DRO	1990-91	54.1	---	---	---	---	54.1
Congo, Rep	1996	---	---	---	10.7	---	10.7
Cote d'Ivoire	1990/98	17.9	---	---	220.4	---	238.3
Ghana	1990-91	83.7	95.8	---	---	---	179.5
Guinea	1989/97	4.5	---	---	4.3	---	8.8
Kenya	1989	85.9	102.0	---	---	---	187.9
Madagascar	1990/97	5.6	53.4	---	24.8	---	83.8
Malawi	1990-91	29.5	2.2	---	---	---	31.7
Mali	1990-91	5.1	---	---	---	---	5.1
Mozambique	1989/96	---	52.9	---	47.4	---	100.3
Niger	1994-96	6.9	---	---	8.5	---	15.4
Nigeria	1990-91	64.8	---	---	---	---	64.8
Rwanda	1998	---	---	---	.9	---	0.9
Senegal	1989/94	---	34.5	---	10.2	---	44.7
Tanzania	1991/97	79.7	59.1	---	18.9	---	157.7
Togo	1989	7.4	---	---	---	---	7.4
Uganda	1991/98	8.6	16.3	---	.9	---	25.8
Zambia	1989/96	172.8	---	---	107.8	---	280.6
Latin Amer.		**1,039.9**	**272.9**	**840.1**	**213.3**	---	**2,366.2**
Argentina	1993	---	---	3.8	---	---	3.8
Bolivia	1991/95	339.6	---	30.7	58.6	---	428.9
Chile	1991	30.6	---	---	---		30.6
Colombia	1992	---	---	31.0	---	---	31.0
El Salvador	1992	---	---	463.9	---	---	463.9
Guyana	1992/96	76.3	40.3	---	9.9	---	126.5
Haiti	1991/95	---	98.9	---	7.9	---	106.8
Honduras	1991/96	333.9	108.9	---	77.0	---	519.8
Jamaica	1991	---	---	310.8	---	---	310.8
Nicaragua	1991/98	259.5	24.8	---	59.9		344.2
Uruguay	1991	---	---	3.7	---	---	3.7
Other		**291.6**	---	---	**36.7**	**10,161.1**	**10,489.4**
Bangladesh	1991	291.6	---	---	---	---	291.6
Bosnia	1998	---	---	---	36.7	---	36.7
Poland	1991	---	---	---	---	2,464.7	2,464.7
Egypt	1990	---	---	---	---	6,998.1	6,998.1
Jordan	1995-98	---	---	---	---	698.3	698.3

Source: U.S. Department of the Treasury.

Table 4. U.S. Sovereign Debt Owed by HIPC and Other Countries
(as of December 31, 1997 — $s - millions)

	Concessional Debt	Non-Concessional Debt		Total Debt	US Debt as % of World Debt*
		Direct US Loans	Private Loans Guaranteed by US		
HIPC:					
Angola	28	7	0	35	0.4%
Benin	0	0	0	0	0.0%
Bolivia	24	53	14	91	2.2%
Burkina Faso	0	0	0	0	0.0%
Burundi	0	0	0	0	0.0%
Cameroon	0	57	9	66	0.9%
CAR	0	9	0	9	1.1%
Chad	0	0	0	0	0.0%
Congo, DR of	445	1,635	0	2,080	24.1%
Congo, Rep of	32	26	0	58	1.4%
Cote D'Ivoire	91	241	46	378	3.6%
Equatorial Guinea	0	0	0	0	0.0%
Ethiopia	88	2	0	90	1.0%
Ghana	0	8	8	16	0.3%
Guinea	103	8	0	111	3.7%
Guinea-Bissau	0	0	0	0	0.0%
Guyana	25	6	0	31	2.3%
Honduras	0	89	58	147	3.8%
Kenya	38	49	39	126	2.5%
Laos	0	0	0	0	0.0%
Liberia	257	76	0	333	31.4%
Madagascar	0	33	0	33	0.9%
Malawi	0	0	0	0	0.0%
Mali	0	0	0	0	0.0%
Mauritania	0	7	0	7	0.3%
Mozambique	0	49	0	49	0.9%
Myanmar	3	0	0	3	0.1%
Nicaragua	18	81	2	101	2.1%
Niger	0	13	0	13	1.0%
Rwanda	0	0	1	1	0.1%
Sao Tome&Principe	0	0	0	0	0.0%
Senegal	0	17	0	17	0.5%
Sierra Leone	64	0	0	64	7.2%

	Concessional Debt	Non-Concessional Debt: Direct US Loans	Non-Concessional Debt: Private Loans Guaranteed by US	Total Debt	US Debt as % of World Debt*
Somalia	201	230	0	431	23.3%
Sudan	493	709	0	1,202	13.4%
Tanzania	0	31	4	35	0.6%
Togo	0	0	0	0	0.0%
Uganda	0	1	2	3	0.1%
Vietnam	136	0	0	136	0.7%
Yemen	99	3	0	102	3.0%
Zambia	134	144	0	278	5.3%
Total, HIPC	**2,279**	**3,584**	**183**	**6,046**	**3.7%**
Non-HIPC Africa:					
Botswana	15	0	9	24	4.6%
Cape Verde	0	0	0	0	0.0%
Comoros	0	0	0	0	0.0%
Djibouti	0	0	0	0	0.0%
Eritrea	0	0	0	0	0.0%
Gabon	0	81	0	81	2.2%
Gambia	0	0	0	0	0.0%
Lesotho	0	0	0	0	0.0%
Mauritius	3	0	5	8	0.7%
Nigeria	0	871	26	897	4.0%
Seychelles	0	0	0	0	0.0%
South Africa	0	3	141	144	1.3%
Swaziland	9	0	0	9	0.1%
Zimbabwe	52	0	151	203	6.5%
Memo Item: Total Africa	**2,053**	**4,307**	**441**	**6,801**	**4.2%**
Other "IDA-Only":					
Albania	0	0	0	0	0.0%
Bangladesh	502	0	13	515	3.5%
Cambodia	361	0	0	361	17.8%
Haiti	16	4	0	20	2.2%
Mongolia	0	0	0	0	0.0%
Nepal	1	0	27	28	1.2%
Sri Lanka	687	0	125	812	12.2%
Tajikistan	26	0	0	26	3.9%

Source: U.S. Department of the Treasury.
*U.S. debt owed as a % of total worldwide long-term public and publically-guaranteed debt.

Under authority first granted by Congress in 1993 (Foreign Operations Appropriations, section 570, P.L. 103-87), the United States began in 1994 to participate in Paris Club arrangements to reduce non-concessional debt owed by developing nations with strong economic reform records. This authority, which has been annually re-enacted in each Foreign Operations measure since 1993, allows the U.S. to cancel partial repayment on loans issued under U.S. Agency for International Development (USAID) housing and other credit programs, military aid loans, Export-Import Bank loans and guarantees, and, for Latin American nations, agriculture credits guaranteed by the Commodity Credit Corporation. All of these loans and loan guarantees are made on non-concessional terms.

In order to be eligible, countries must be able to borrow only from the World Bank's concessionary loan window, the International Development Association (IDA),[8] and comply with a series of standards regarding excessive military expenditures, terrorism, narcotics control, and human rights. Since 1994, the United States has reduced $732 million in non-concessional debt through the Paris Club, on both Naples and HIPC terms.

Two new U.S. bilateral debt reduction programs took shape in 1998. As one element of the President's Africa Initiative to boost trade, investment, and development opportunities, the United States intends to cancel 100% of concessional debt owed by the strongest performing African nations. Only about $2.1 billion in concessional debt remains, however, and most — $1.44 billion — is owed by poorly performing countries mired in conflict and without near-term prospects for economic recovery: Congo/Zaire, Liberia, Sierra Leone, Somalia, and Sudan.

The second new program — Debt Relief for Tropical Rainforest Countries — originated in Congress and was enacted into law in P.L. 105-214. Modeled after the EAI debt relief program, it authorizes the President to buy back, swap, or cancel concessional U.S. economic and food aid loans in order to generate local currencies that will be used to support tropical forest conservation programs.

[8] Such countries are commonly referred to as "IDA-only" nations. In most cases, the World Bank designates countries with a 1997 per capita GNP of less than $925 as IDA-only borrowers.

Calculating the Cost of Debt Reduction Initiatives and the Role of Congress

As noted in the discussion above, Congress must authorize U.S. participation in new debt reduction programs. Under provisions of the Federal Credit Reform Act of 1990, Congress must also appropriate, *in advance,* the anticipated costs to the U.S. government of canceling such debt. The appropriated amount, which is usually included in the annual Foreign Operations spending measure, equals the estimated loss to the U.S. treasury of implementing the debt reduction agreement. Each year's federal budget assumes that a certain amount of loan reflows, or off-setting receipts, will be received. Over time, the appropriation off-sets the loss of these reflows.

The calculation of how much money must be appropriated to reduce or cancel a certain amount of debt is complicated, and depends on a number of factors including the value of debt (whether it is concessional or non-concessional) and the likelihood of repayment by the debtor. For loans that bear interest rates at or above current levels that were made to countries with a good repayment history, the amount of appropriations will be much higher than for concessional loans to countries that pay late or default. For example, during the 1990s Congress appropriated $386 million to cancel roughly $700 million of debt owed by Jordan. Since Jordan had a good debt service record and held loans bearing above market interest rates, Jordan's debt forgiveness was a more "expensive" initiative in budget terms. On the other hand, for the poorest countries that have less capacity to service their debt, which consists mainly of highly concessional loans, the cost and the appropriation is much smaller. In FY1999, the Treasury Department estimated that it would use $43 million appropriated the previous two years to cancel $376 million (face value) of debt owed by 11 HIPC countries. In other words, Jordan's debt was more "valuable" to the U.S. government in terms of anticipated repayment than loans made to poorer countries.

Heavily Indebted Poor Country (HIPC) Initiative

The series of incremental and sometimes uncoordinated debt rescheduling and relief plans during the late 1980s and early 1990s did not produce the degree of sustainable debt reduction that international aid agencies and debtor governments had envisioned. The stock of long-term debt owed by the severely indebted low-income countries actually grew from $61 billion in 1980, to $245 billion in 1995, while their debt as a percent of exports had risen from 102% to 421% during the same period. Further, the share of debt owed to international financial institutions (IFIs), such as the World Bank, increased sharply in the early 1990s — from 21% in 1990 to 27% in 1995.[9]

One of the major criticisms of earlier debt relief initiatives was the absence of participation by the IFIs. World Bank and other IFI officials asserted that to engage in debt reduction, they would have to pass the costs on to their middle-income country borrowers. Instead, the IFIs increased lending on highly concessional terms to the poorest countries. Nevertheless, under growing pressure from non-governmental organizations and some creditor governments, especially Britain, the

[9] World Bank, *Global Development Finance, 1997,* vol. I, p. 204.

World Bank and IMF sponsored the initiation in September 1996 of the Heavily Indebted Poor Countries Debt (HIPC) Initiative. HIPC remains the centerpiece international debt workout plan of today.

Overview of the HIPC Initiative

The intent of the HIPC Initiative is to reduce the debt burden of poor countries that have demonstrated sound economic and social policy reforms to manageable, or "sustainable" levels that can be serviced comfortably by export revenues and capital inflows. When it was launched, poor country debt relief proponents hailed the initiative for its comprehensive and integrated approach, especially the inclusion of IFI participation, and for its objective to provide lasting debt solutions.

HIPC Eligibility Criteria. To be selected for possible HIPC status, countries must meet specific criteria:

- receive *only* concessional financing from the World Bank and IMF (that is, borrowing only from the World Bank's International Development Association (IDA) and from the IMF's Enhanced Structural Adjustment Facility (ESAF)).
- establish a track record of economic reforms under IMF and World Bank-sponsored programs.
- hold a debt burden that is unsustainable under existing (Naples terms) relief arrangements.

Through an initial analysis in 1996, the World Bank and IMF identified 41 heavily indebted countries — the 41 HIPC countries.[10]

HIPC Timing and Terms. The HIPC process is divided into two phases. During an initial three-year period, beginning at what is called the "entry point," countries must successfully follow World Bank and IMF adjustment programs. At the conclusion of this phase, the Bank and Fund conduct a debt analysis to determine whether a country still requires extraordinary debt relief beyond Naples terms. It was presumed that during this three-year period, some countries might improve their economic position to the extent that they could manage their debt burden without the need for HIPC terms. The analysis is intended to determine whether the country can service its debt based on a medium-term balance of payments projection. The economic indicators used in the Bank/Fund analysis are the relationship between the present value of external debt and the export of goods and services. For the first three years of HIPC, if a country's debt-to-export ratio fell above a range of 200-250%, and debt service-to-exports exceeded 20-25%, its debt burden was categorized as unsustainable, making the country eligible for HIPC terms. As discussed below, critics charged that these thresholds were too high and prevented the cancellation of sufficient debt to make a long-lasting difference. Consequently, the World Bank and IMF have lowered the debt-to-export target to 150%.

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[10] See Table 1 for a list of HIPC countries. Originally, Nigeria was a HIPC country, but because it is eligible for both concessional (IDA) and non-concessional World Bank loans, it was removed from the list. Subsequently, Malawi was added.

At this stage of the process, known as the "decision point," a country with unsustainable debt may begin to receive from bilateral creditors a reduction of non-concessional debt through Paris Club arrangements. During the first three years of HIPC, creditor governments would cancel up to 80% of eligible debt (as opposed to 67% under Naples terms). G-7 leaders agreed, however, during their June 1999 summit, to increase the ceiling to 90%.[11]

At the decision point, countries begin a second period — originally three years, but modified in September 1999 to an unspecified amount of time that may result in more rapid qualification — during which they must continue to display good performance under a Bank/Fund program. At the end of the second phase, referred to as the "completion point," a country becomes fully eligible for HIPC debt relief. In addition to the 90% reduction from Paris Club debt, the World Bank, IMF and other IFIs adjust debt levels to a "sustainable" amount — so that a country's present value of total debt as a percent of exports does not exceed 150%. Special treatment may be given to nations with very open economies[12] where the debt-to-export ratio falls below 150%, but still face a heavy debt burden in relation to its fiscal revenues. In these cases, creditors will reduce debt so that the present value of debt equals 250% of fiscal revenues.[13] (For the first three years of HIPC, this target had been 280%.) Although debtor countries become fully eligible only at the completion point, World Bank and IMF modifications in September 1999 will result in "interim" relief by IFIs during the second stage, with a reduction in annual debt service payments through what the IFIs are calling "front-loaded" assistance.

Financing HIPC. A key enhancement to previous debt reduction arrangements introduced in the HIPC process is a more systematic method of burden-sharing of the costs of implementing debt relief programs. Bilateral creditors, largely through the Paris Club, meet the costs according to the budget rules that apply to their respective national governments. In the case of the United States, Congress must appropriate funds in advance of debt cancellation, providing an amount equal to the present value of loans to be reduced. For poor countries, this can be a very small portion of the loans' face value — perhaps 10% or less.

The reduction of multilateral debt is financed through the IDA-managed HIPC Trust Fund which receives resources in several ways. The World Bank pays for the costs of canceling its loans by transferring net income and surplus from its market-rate lending facility — the International Bank for Reconstruction and Development (IBRD) — to the HIPC Trust Fund. The IMF initially covered the cost of its

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[11] G-7 leaders further adopted a U.S. proposal that they forgive 100% of concessional or "foreign aid" debt owed by poor debtor countries. More recently, on September 29, President Clinton announced that the United States was prepared to cancel 100% of all — concessional and non-concessional debt — debt owed by HIPC countries, and urged others to follow. Britain has endorsed the same policy while others have the issue under review.

[12] Very open economies are those where the export-to-GDP ratio is higher than 40% and the fiscal revenue-to-GDP ratio exceeds 20%.

[13] Most countries have, or are expected to have their debt reduced based on the debt-to-exports ratio. The World Bank estimates that three countries may receive assistance under the fiscal criteria.

participation through an interim arrangement that drew on ESAF resources to service debt obligations of eligible HIPC countries. In order to establish a permanent means to cover IMF debt reduction costs, the IMF and several of its largest contributors agreed on a plan to sell some of IMF's gold holdings. Fearing that a large IMF gold sale would further depress its value on global markets, U.S. gold firms and African gold producing nations strongly objected to the proposal. At the September annual meetings, the IMF and its members abandoned the gold sale approach, and instead proposed to introduce a mechanism whereby the Fund would be able to "re-value" about 14 million ounces of gold. This would generate enough money to pay the IMF's share of canceling HIPC country debt.[14] Other IFIs, however, do not have sufficient resources to fully cover their costs of reducing HIPC debt. As a result, bilateral donors are asked to contribute to the HIPC Trust Fund to fill this financing gap.

HIPC Contributions. As of December 31 1999, bilateral contributions to the HIPC Trust Fund totaled $327 million. The Netherlands ($108 million) were the largest donor. Pledges amounted to another $1.7 billion, including $600 million from the United States.[15] Germany ($80 million) Italy ($70 million), and the European Union (about $730 million) are among those that have also made large pledges, but not directly contributed. The U.K. says it will add $200 million to the $25 million already paid. Germany, one of the other major aid donors that has not contributed to the Trust Fund, has pledged DM 50 million.[16] Notwithstanding these contributions, the Treasury Department estimated in February 1999 — before the G-7 and World Bank/IMF agreement to expand HIPC — that the HIPC Trust Fund faced a $2 billion funding shortfall.[17] With more recent estimates that show a doubling of the costs of the HIPC initiative, the Trust Fund shortfall will be much greater.

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[14] The actual process by which the gold would be re-valued involves several steps. First, the gold, which is carried on the IMF books at the original price of $48 per ounce, would be purchased at current market value (over $260 per ounce) by a member country about to make a large payment on an IMF loan. After buying the gold, the country will immediately make its loan payment to the IMF, but in gold that it just purchased, rather than hard currency. The IMF will invest the "profits" of its gold transaction in a security instrument and use the earned interest to pay for the costs of canceling HIPC debt over a 20 year period. While many IMF members have endorsed this approach, it requires the agreement of 85% of the Fund's voting shares. Congress must authorize U.S. support for the proposal, and since the United States holds more than 15% of the votes, the gold re-valuation plan cannot be implemented without U.S. — and congressional — approval.

[15] Congress, in H.R. 2606, the FY2000 Foreign Operations Appropraitions, denied all HIPC Trust Fund requests. President Clinton vetoed H.R. 2606, in part because of reduced funding for debt relief. Subsequently, Congress increased (in P.L. 106-113) bilateral debt reducton funding from $33 million in H.R. 2606 to $123 million, but blocked any of these funds for the HIPC Trust Fund.

[16] World Bank, *HIPC Trust Fund -- Bilateral Donor Funding (as of Dec. 15, 1999)*. Available online at the World Bank HIPC web site [http://www.worldbank.org/hipc].

[17] U.S. Department of the Treasury. *Treasury International Programs: Justification for Appropriations, FY2000*.

Table 5. Selected Debt Ratios of HIPC and Other Countries
(Present Value of Debt)

	Debt as % of Exports		Debt as % of GNP		Debt Service as % of Exports	
	1996	1997	1996	1997	1996	1997
HIPC:						
Angola	219	165	310	200	13.3	15.9
Benin	215	160	57	46	6.8	9.1
Bolivia	270	270	57	51	30.9	32.5
Burkina Faso	241	161	31	29	10.8	11.8
Burundi	538	546	47	58	54.6	29.0
Cameroon	399	315	106	93	23.6	20.4
CAR	242	244	51	52	6.3	6.2
Chad	181	195	51	35	9.5	12.5
Congo, Dem. Rep. of	693	783	127	215	2.4	.9
Congo, Rep. of	342	249	260	247	11.7	6.2
Cote D'Ivoire	299	268	171	141	26.2	27.4
Equatorial Guinea	157	52	124	46	2.6	.5
Ethiopia	1,093	791	149	131	42.2	9.5
Ghana	208	229	56	58	26.4	29.5
Guinea	298	330	61	67	14.7	21.5
Guinea-Bissau	2,312	1,136	248	253	48.7	17.3
Guyana	236	134	252	145	15.1	14.4
Honduras	200	157	92	83	26.0	20.9
Kenya	177	161	64	49	27.5	21.5
Laos	177	217	45	53	6.3	6.5
Liberia	---	---	---	---	---	---
Madagascar	426	370	97	85	9.4	27.0
Malawi	294	182	76	46	18.6	12.4
Mali	261	240	56	72	17.9	10.5
Mauritania	318	377	157	169	21.7	24.2
Mozambique	1,344	785	411	171	32.3	18.6
Myanmar	296	289	34	---	---	8.0
Nicaragua	763	441	322	244	24.2	31.7
Niger	284	329	45	56	17.3	19.5
Rwanda	682	373	47	33	20.3	13.3
Sao Tome & Principe	2,268	1,146	651	382	31.5	53.8
Senegal	150	152	53	55	15.9	15.3
Sierra Leone	515	779	78	89	52.6	21.2
Somalia	---	---	---	---	---	---
Sudan	1,964	2,421	260	170	5.0	9.2
Tanzania	499	427	114	72	18.7	12.9

	Debt as % of Exports		Debt as % of GNP		Debt Service as % of Exports	
	1996	**1997**	**1996**	**1997**	**1996**	**1997**
Togo	191	129	80	60	10.8	8.1
Uganda	294	239	32	31	20.0	22.1
Vietnam	322	168	123	81	3.5	7.8
Yemen	160	75	88	56	2.4	2.6
Zambia	389	374	161	138	24.6	19.9
Total, HIPC	---	**272**	---	**98**	---	**15.1**
Non-HIPC Africa:						
Botswana	17	---	11	9	4.9	---
Cape Verde	107	103	50	53	2.9	5.5
Comoros	334	331	96	102	2.3	3.9
Djibouti	132	122	61	57	5.4	3.1
Eritrea	6	9	3	4	.0	.1
Gabon	123	128	86	94	26.2	13.1
Gambia	113	97	64	57	1.4	11.6
Lesotho	69	62	33	35	6.1	6.4
Mauritius	73	92	45	55	7.2	10.9
Nigeria	240	148	114	72	16.0	7.8
Seychelles	46	40	30	28	4.7	4.0
South Africa	67	65	18	19	11.1	12.8
Zimbabwe	154	136	67	49	21.2	22.0
Other "IDA-Only"						
Albania	101	99	32	22	3.5	7.1
Bangladesh	166	130	30	20	11.7	10.6
Cambodia	191	175	54	53	1.2	1.1
Haiti	297	272	30	21	13.2	15.9
Mongolia	65	89	36	47	9.7	11.7
Nepal	102	87	26	25	7.7	6.9
Sri Lanka	97	79	41	35	7.3	6.4
Tajikistan	69	86	24	34	.1	4.6

Sources: World Bank, *World Development Indicators, 1998 and 1999.*
World Bank, *Global Development Finance, 1999.*

Country Eligibility and Timing of HIPC Implementation

On the basis of the most recent debt sustainability analysis and announcements in September 1999 for the substantial expansion of HIPC terms, the World Bank and IMF estimate that 36 of the 41 HIPC countries potentially could qualify for HIPC assistance based on the debt-to-export threshold, an increase of seven from pre-September assessments.[18] In addition to lowering the eligibility thresholds, the decline in global commodity prices during the past year is a main reason why some nations which Bank and Fund staff previously thought would achieve sustainable levels of debt without extraordinary HIPC relief now fall within the HIPC parameters. These countries are positioned at various stages in the HIPC process. Only four — Uganda, Bolivia, Guyana, and Mozambique — had reached their completion points under the "old" HIPC program. Uganda, Bolivia, and Mozambique are expected to be among the first to receive a "topping up" of debt relief under HIPC's new, more generous terms. (Guyana has fallen out of compliance with an IMF arrangement and will not be eligible for early review.) Altogether, these three plus six others[19] may come before World Bank/IMF boards for full HIPC debt relief consideration by April 2000. It is less certain when or whether remaining countries will eventually reach the decision and completion points.

Critics, Proposals for Reform, and HIPC Expansion

Setting the Stage for HIPC Expansion

Although the majority of creditor and debtor governments, development institutions, and non-governmental organizations (NGOs) supported the general concept of the HIPC Initiative, many were disappointed with the results achieved since 1996 and recommended substantial reforms. Numerous NGOs advocated extensive modifications to, if not abandonment of the HIPC process. The strongest critics sought immediate, unconditional forgiveness of poor country debt. Foremost among the NGO activists has been Jubilee 2000, a campaign launched at the June 1997 G-7 Denver Summit, and spearheaded primarily by Catholic and Protestant organizations from over 60 countries that have been involved in debt relief and poverty issues for many years.

U.S. Policy. While acknowledging weaknesses with the current HIPC structure, global public financial institutions and creditor governments examined since spring 1999 ways to strengthen, but not replace HIPC. President Clinton announced in mid-March the outlines of a U.S. plan that would form the basis for a continuing American campaign for the expansion of HIPC debt relief terms. Since its inception in 1996, the

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[18] The five that are not expected to need relief at HIPC terms are Angola, Equitorial Guinea, Kenya, Vietnam, and Yemen. Four of the 36 that appear to qualify on debt sustainability grounds may not participate. Sudan, Somalia, and Liberia are not close to meeting the economic reform criteria. Ghana has said it may not want HIPC debt relief since it would lose the ability to borrow from Japan, an important aid donor, if it participates.

[19] Nicaragua, Burkina Faso, Tanzania, Honduras, Mali, and Senegal.

United States supported HIPC as a means to promote economic growth and poverty alleviation, and to reward those countries with the best performance records with the cancellation of debt that most likely would never be paid. At the same time, U.S. officials emphasize that any debt relief program must be carefully designed so that it does not result in negative incentives that will undermine the capacity of poor country governments to borrow in the future. The United States also endorses HIPC for its broad and comprehensive approach to debt reduction that involves bilateral and multilateral creditors alike. Because the U.S. holds such a small amount of what is owed by the most heavily indebted poor nations — less than 4% — unilateral American action would have minimal impact on relieving the severe debt overhang.

World Bank/IMF and G-7 Proposals. Under pressure from member governments and NGOs, World Bank and IMF officials said at their spring 1999 meetings that they would review HIPC and be prepared to propose substantive reforms at the organizations' annual meetings in September. Subsequently, Bank and Fund staff prepared a policy modification paper to which the IMF Executive Board gave a favorable review in mid-August.[20] G-7 leaders, meeting in Cologne, Germany, at their annual economic Summit, further issued a joint position statement endorsing many of the recommendations put forward by the United States and those incorporated into Bank and Fund staff papers. As expected, at the World Bank/IMF annual meetings in late September 1999, the institutions endorsed broad expansion of the HIPC Initiative, the details of which draw heavily from proposals issued earlier by President Clinton, the British government, and congressional legislative initiatives (see below). Many NGO concerns are also accommodated in the expanded outlines of HIPC, although groups remain concerned about how the modifications will be implemented and whether the promised financing will materialize. The major enhancements, discussed in more detail below, to the expanded HIPC Initiative announced in September 1999 include:

- *Broader debt reduction* — Debt to export and fiscal qualification thresholds are lowered so that 36 countries, up from 29, are expected to qualify. (These numbers include Sudan, Somalia, and Liberia which are unlikely to qualify for other reasons.)

- *Deeper debt reduction* — With lower export and fiscal thresholds now used to define "sustainable" debt, qualifying countries will have more debt canceled.

- *Faster debt reduction* — Instead of the previous requirement for back-to-back three year periods of good economic performance, debtor nations can now gain full HIPC benefits using a "floating" completion point in which they must reach agreed-upon economic reform targets anytime following successful implementation a the first three-year program. IFIs have also agreed to extend interim

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[20] See, *Modifications to the Heavily Indebted Poor Countries (HIPC) Initiative*, July 23, 1999, found at [http://www.worldbank.org/html/extdr/hipc/mod072399/paper.htm]. See also, *IMF Executive Board Reviews HIPC Initiative Modifications*, August 13, 1999, found at [http://www.worldbank.org/external/np/sec/pn1999/pn9976.htm].

assistance between the decision and completion points, and to "front-load" debt service relief in some cases.

- *Poverty reduction emphasis* — The World Bank and IMF pledge to place greater emphasis on the poverty reduction goal of debt relief, reform ESAF arrangements, and to require that debtor nations prepare and implement a Poverty Reduction Strategy Paper that will ensure that debt relief savings will be utilized to increase spending on health, education, and other basic social programs.

Congressional Initiatives. During the 106th Congress, several bills have been considered that endorse a significant expansion of U.S. debt relief policy. Some are consistent with current U.S., G-7, and World Bank/IMF plans to broaden HIPC relief terms while others go well beyond these proposals. Although formal action on any of these bills did not begin until early November 1999, the discussion prompted by their introduction helped shape U.S. policy changes and provided momentum for many of the HIPC expansion initiatives recently announced by the World Bank and IMF.

In the final days of the 106th Congress, 1st session, the White House and congressional leaders negotiated the text of authorizing legislation (H.R. 3425, incorporated by reference into the Consolidated Appropriations Act, FY2000, P.L. 106-113) that provides the Administration with authority to implement enhanced debt reduction terms. But the legislation excludes a number of provisions that debt relief advocates had sought in other bills, especially directives to reduce or eliminate the role of IMF structural adjustment programs as a qualifying criteria for debt relief. A more expansive debt relief framework — H.R. 1095 — had been reported by the House Banking Committee in early November 1999, and drew broad support from NGOs, Jubilee 2000, and other activists in the debt debate. H.R. 1095, however, faces stiff opposition from the Administration. Table 7, found at the end of this report, compares major elements of H.R. 3425, the new authorizing bill enacted on November 29, with H.R. 1095, terms of the original HIPC program, and the "Expanded HIPC" recommendation endorsed by the G-7.

International Debt Relief Act. This legislation (title V of H.R. 3425, P.L.106-113) represents the outcome of executive-legislative negotiations during the final days of the 1st session over the terms of enhanced U.S. debt relief programs and authorization for U.S. officials to support the IMF off-market sale of gold and use of a reserve account to finance the Fund's participation in HIPC.[21] In general terms it approves HIPC qualification requirements that are in line with current Administration policy, including several measures to strengthen the linkage between debt relief and poverty reduction. The bill further authorizes U.S. support for the IMF to sell enough gold to generate 2.226 billion Special Drawing Rights in profits. The sales will take place only between the Fund and member countries (mainly Mexico) in nonpublic

[21] H.R. 3425 is entitled, Making Miscellaneous Appropriations for FY2000. It is enacted by reference in H.R. 3194, the Consolidated Appropriations Act of FY2000, legislation that represents the final "budget package" for FY1999. President Clinton signed H.R. 3194 on November 29, 1999.

transactions so that the IMF retains possession of the gold at the conclusion of the exchange. "Profits" from the sales will be invested, with the earnings available to finance IMF debt relief for HIPC countries. H.R. 3425, however, limits to 9/14 the amount of earnings on investments that may be used by the Fund. Congressional leaders pledged that Congress will review the issue during the first half of 2000 and consider authorizing the use of the full amount.

Debt Relief for Poverty Reduction Act of 1999. H.R. 1095 aims to reform the HIPC Initiative much along the lines recommended by Jubilee 2000/U.S., Bread for the World, Oxfam America, and many other NGOs. Introduced by Representative Leach on March 11, 1999, H.R. 1095 addresses only debt reduction issues and not the broader array of African aid and trade policy raised in some other legislative proposals. On several points — lowering the eligibility thresholds, emphasizing poverty reduction goals, and extending more rapid debt relief — it is consistent with the expanded U.S. HIPC debt relief policies and those announced at the World Bank/IMF annual meetings in September. But on other issues, it goes beyond Administration plans and would result in broader and deeper debt reduction for more developing countries. H.R. 1095, reported by the House Banking Committee on November 18, would require reforms that would expand by 10 the number of countries, including Nigeria, that are expected currently to receive HIPC terms. The legislation would also add several additional eligibility criteria relating to slavery practices, labor conditions, female genital mutilation, and MIA cooperation. It further "urges" lower debt-to-export thresholds than currently agreed upon. H.R. 1095 does not fix a cost to expanding debt relief but authorizes the appropriation of "such sums as may be necessary."

Debt Relief for Poor Countries Act of 1999. S. 1690, introduced by Senator Mack and others on October 5, follows much of the same outlines of H.R. 1095 but without several eligibility requirements added during committee markup. In addition to emphasizing poverty reduction goals, the legislation further requires debtor nations to establish a mechanism through which debt relief savings will be used for economic reform programs that promote sustainable growth and provide widely shared benefits throughout the population.

Human Rights, Opportunity, Partnership, and Empowerment for Africa Act (HOPE for Africa Act). H.R. 772, introduced by Representative Jackson on February 23, 1999, represents a broad, comprehensive approach for a new U.S. policy towards sub-Saharan Africa, including a commitment to cancel all African debt, increase U.S. development aid to the region, provide preferential access to U.S. markets of African goods, and ensure that such products are produced consistent with sound labor, human rights, and environmental standards. It is an alternative proposal to President Clinton's Africa initiative launched in 1998 and to legislation passed by the House last year and that is under consideration again in the 106th Congress (H.R. 434/S. 1387).[22]

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[22] For a discussion of the Clinton African initiative and related legislation, see CRS Issue Brief IB98015, *African Trade and Investment: Proposals in the 106th Congress*, by Theodros Dagne and Lenore Sek.

Debt forgiveness provisions of the HOPE for Africa Act are based on the basic principles that sub-Saharan Africa's debt burden is a serious obstacle to economic, political, and social development in the region, that any policy aimed at promoting growth and sustainable development in Africa must include unconditional debt cancellation, and that IMF, World Bank, and other structural adjustment programs have imposed "enormous preventable suffering on African people." H.R. 772 essentially rejects the HIPC Initiative, substituting a policy of immediate, unconditional debt forgiveness of the entire $6.8 billion of African debt owed to the United States government,[23] as well as all debt owed to American private lenders, and advocating the implementation of similar policies by other creditor governments and IFIs. H.R. 772 is the most expansive of the congressional bills, promoting 100% immediate debt forgiveness, without conditions, for all sub-Saharan African nations. If fully implemented, the HOPE for Africa bill would result in the forgiveness of about $226 billion for all 48 African nations, plus potentially up to about $1 billion of debt owed to U.S. persons. To cover the costs of U.S. debt forgiveness, H.R. 772 authorizes for FY2000-2002 the appropriation of "such sums as may be necessary," but does not attach any specific amount to the new policy.

HOPE for Africa Act of 1999. Senator Feingold introduced S. 1636, a modified version of the House HOPE for Africa Act. Like H.R. 772, it would apply to all 48 sub-Saharan African countries and result in 100% cancellation of all debt owed the United States by these countries. It would not require, however, the forgiveness of private debt held by U.S. persons, as in H.R. 772, but instead call for a report by January 1, 2000, from the Treasury Department setting out a plan for the U.S. government to acquire this private debt. No specific amount of money is authorized for implementation of S. 1636.

Debt Relief and Development in Africa Act of 1999. H.R. 2232, like H.R. 1095 and S. 1690, is focused directly on debt reduction issues and promotes improvements to the HIPC process, not its abolishment. While similar in scope to the Leach and Mack bills, legislation offered by Representative Waters on June 15, 1999, would extend deeper debt reduction to a smaller group of nations, add additional eligibility requirements for debtor countries, and explicitly reject the need for nations to comply with an IMF structural adjustment program. Portions of the bill that required HIPC countries to implement plans to protect their natural resources were incorporated into the marked-up text of H.R. 1095. Like the HOPE for Africa Act, H.R. 2232 applies only to countries in sub-Saharan Africa, rather than the world-wide focus of HIPC and H.R. 1095/S. 1690.

Debt Emancipation to Enable Democracies (DEED) Act of 1999. The DEED Act (H.R. 3049), introduced by Representatives McKinney and Rohrabacher on October 7, adds as an eligibility requirement for debt relief that countries promote democracy through the holding of free and fair elections, maintaining civilian control over the military, and other democratic principals. H.R. 3049 further adds Haiti to the list of HIPC countries, bans any U.S. funds to the IMF until the institution cancels all debts owed by HIPC nations and abolishes ESAF, and permits operations of the

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[23] The $6.8 billion represents the total as of the end of 1997. More recent estimates suggest that the figure has grown to about $7.5 billion.

Overseas Private Investment Corporation (OPIC) only in those HIPC countries that are using the savings from debt forgiveness for poverty reduction purposes.

Debt Forgiveness Act of 1999. H.R. 1305, introduced by Representative Campbell on March 25, 1999, has a far more limited scope than the other bills. Under the Campbell legislation, the President must first cancel 100% of concessional and non-concessional debt owed to the United States by all 41 HIPC countries before the U.S. can transfer funds to the IMF. Last year, in P.L. 105-277, Congress appropriated $17.9 billion to fund U.S. participation in an IMF quota increase and for the Fund's New Arrangements to Borrow facility.

Critics Views of HIPC, Proposals for Change, and the Response

While debt relief proponents have found fault with many aspects of the HIPC Initiatives, the most significant concerns over which there is wide agreement center on three issues: the speed of debt relief, how much relief is provided, and eligibility requirements for HIPC participation. The discussion below explains each of these criticisms and identifies reform proposals adopted by the G-7 and the World Bank/IMF, and those included in congressional legislation.

HIPC Debt Relief Comes Too Slowly. Most agreed that a qualifying period that can take up to six years was too long. Critics asserted that such delays were actually counter-productive to the success of economic reforms undertaken by HIPC countries; that debt relief provided *during*, rather than after completion of a structural adjustment program can accelerate and strengthen the reform efforts. Moreover, they argued, that countries emerging from conflict or have been victimized by a natural disaster, such as Hurricane Mitch, should be provided with special accommodation so that their debt obligations do not complicate reconstruction efforts.

While most support the requirement for some qualifying period, the issue becomes how long a track record of good economic performance is sufficient to ensure that debt relief is not wasted and that it will have lasting benefit.[24] The World Bank and IMF have maintained in the past that a second three-year period after a country reaches its decision point may be necessary to guarantee that the full range of complex structural reforms have time to take hold. But the institutions also pointed out that the six year requirement was applied flexibly for the seven countries at or near the end of the HIPC process — that Uganda and Bolivia, for example, had their second stage shortened to one year.

One implication of shortening the qualifying period is the possibility of additional costs. By reducing the time, countries would receive debt relief earlier, before the full

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[24] Not all debt relief proponents, however, endorse the need for a qualifying period of economic reforms, arguing instead for immediate cancellation. This position is generally based on the premise that much of the past debt was acquired illegitimately for reasons unrelated to the development needs of the poor: that it was accumulated with the encouragement of international financial institutions at a time when they had a capital surplus; that it was thrust upon U.S. and Soviet Cold War client states, or that it was obtained by prior, corrupt regimes that either squandered or stole the money.

impact of reforms had a chance to strengthen their economic position. As a result, the debt-to-export ratios on which the amount of debt relief is calculated, would likely be higher at an earlier point and would require more assistance to lower the debt stock to the sustainable target of around 200%. An analysis by the World Bank estimates that shortening the second three-year qualifying stage by one year would add $2 billion, while the elimination of the second stage would raise HIPC costs by $6.6 billion.[25] From the perspective of the debtor country, the advantage under an accelerated qualification scenario would be the receipt of earlier and higher amounts of debt relief.[26]

World Bank/IMF Modifications. At their annual meetings, the Bank and Fund endorsed G-7 proposals for multilaterals to extend "interim relief" and to establish "floating completion points" that could shorten the time it takes a country to receive HIPC debt relief. Instead of a fixed three-year second stage, nations could reach the completion point once they had successfully met agreed-upon economic policy targets. This, according to Bank and Fund officials, would offer strong incentives for governments to implement reform programs more quickly and to assume more direct control over how rapidly they become fully eligible for HIPC relief terms.

Congressional Recommendations. Except for H.R. 3425, each of the broadly focused debt reduction bills propose to shorten the interim period. By not stating a timing preference, H.R. 3425 would allow the President to implement debt reduction programs at an accelerated pace as recommended by the G-7.

- The Leach and Mack bills (H.R. 1095 and S. 1690) propose to shorten the eligibility period to no more than three years, with special accommodation for countries emerging from conflict of natural disasters.

- The HOPE for Africa measures (H.R. 772 and S. 1636) include few specific dates for initiating debt relief actions, but through a series of required reports by the President to Congress, the legislation implies that rapid movement should occur. Beginning on December 31, 1999, the President must report annually on unilateral debt relief for African nations; within nine months of enactment, the Secretary of State must report on how other creditor governments have responded to U.S. appeals for them to forgive bilateral Africa debt; and within a year of enactment, the Secretary of the Treasury must notify Congress how World Bank and IMF members have reacted to U.S. proposals for the Bank and Fund to fully and unconditionally cancel Africa's debt.

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[25] World Bank. *HIPC Initiative: Perspectives on the Current Framework and Options for Change — Supplement on Costing.* Table 5. April 13, 1999. Modified May 12, 1999.

[26] For example, the GAO estimated that if the second stage for Guyana was reduced to one year instead of three, HIPC assistance would be 68% higher with an increase of $103 million in the present value of debt canceled. General Accounting Office. *Status of the Heavily Indebted Poor Country Debt Relief Initiative.* September 1998, p. 38.

- The Debt Relief for Development in Africa Act of 1999 (H.R. 2232) would make HIPC terms available immediately once a debtor country is determined to have a debt-to-export ratio above 100% and has created a Human Development Fund and a Natural Resource Development Plan.

Debt Sustainability Definitions and Targets Are Limited or Inappropriate. Many HIPC critics believed that the debt-to-export and debt service-to-export thresholds were set too high, excluding some heavily indebted countries from qualifying for HIPC terms or from being included among the HIPC countries. Bangladesh, Haiti, Comoros, among other poor countries, were not part of the HIPC process, even though their debt-to-export ratios fell between 150-300%. Setting targets too high, according to these critics, further restricted the amount of debt relief provided, undermining the prospect that HIPC would provide a "permanent exit" from an unsustainable debt burden. A downturn in global commodity prices or other negative external factors, they argued, can shift a country from a sustainable to unsustainable debt position. Debtor nations would be far less vulnerable to such factors if HIPC provided deeper debt relief.

Some of these same critics also believed that HIPC places too much emphasis on reducing debt stock and not enough on cutting the amounts of debt service. Targets based on the relationship between debt and exports, they believed, are less important than indicators focused on debt service and government revenues. Reducing debt service obligations frees up resources immediately that can be used to finance social and other poverty reduction programs. Many observers were dismayed by World Bank and IMF admissions that debt service payments for the early qualifiers of HIPC relief would not be much different than before; indeed, debt service for Mali and Burkina Faso was expected to rise.[27] Critics believed that indicators drawing on the relationship between debt service and government revenues were more appropriate for poor countries and would help achieve the duel goals of debt reduction and increased spending on education, health, and other social programs.

The World Bank and IMF did not necessarily disagree with these concerns, and acknowledged that HIPC targets were "judgmental rules of thumb" that should not represent "discrete cutoffs." They cautioned, however, that changes made to the targets or the introduction of different indicators also raised serious implications. Establishing an appropriate debt service target that would achieve debt sustainability, they asserted, would be more difficult and lack a strong analytic basis. Bank and Fund officials further said that a country's capacity to service debt involves more than just the collection of revenues, and needs to be examined in a full budgetary context. They have also expressed concern that a substantial expansion and deepening of HIPC relief would not necessarily lead to increased amounts of external aid — that because of fiscal constraints of participating creditor governments and institutions, more debt

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[27] World Bank. *HIPC Initiative: Perspectives on the Current Framework and Options for Change — Annex 1. Implementation of the Initiative and Resource Flows. April 2, 1999, p. 45.*

assistance might come from funds that would otherwise go for development assistance, which is already in decline.[28]

G-7 Proposal. Following recommendations issued by the White House in March, G-7 leaders endorsed raising the level of canceled Paris Club bilateral non-concessional debt from 80% to 90%, and even higher for the very poorest. Also at the June Summit, participants proposed that the World Bank/IMF debt sustainability targets be lowered from a debt-to-export ratio of 200% to 150%, and that the alternative debt-to-revenue ratios decline from 280% to 250%. Not only would this modification cancel a larger portion of debt held by eligible countries, it would also increase the number of countries that would likely qualify for expanded-HIPC terms. Analysts believed that the pre-September World Bank estimate of 29 potentially qualifying nations would grow to 36 under ratio reductions recommended by the G-7.

The G-7 further endorsed a plan, also backed earlier by the United States, for bilateral lenders to forgive all concessional foreign aid loans and to extend future concessional financing mostly in the form of grant aid. Since the United States has extended nearly all foreign aid as grants for over a decade, this latter proposal would have no impact on current U.S. policy. This would also be the case for most other donors. But for a country such as Japan, which in 1997 offered about 17% of its aid as loans, this policy would require adjustments.

World Bank/IMF Modifications. Bank/Fund proposals follow closely those endorsed by the G-7. They recommend that the NPV debt-to-exports ratio decline form the current 200-250% range to a single target of 150%; that the NPV debt-to-revenue ratio decline from 280% to 250%; and for those countries with very open economies that qualify based on the fiscal window, that the current 40% of exports-to-GDP fall to 30% and the 20% of revenues-to-GDP decline to 15%. Addressing concerns over debt service burdens, the institutions recommend "front-loading" more debt relief after countries have reached their completion point. They further endorse the lowering a debt service-to-exports ratio to a range of 15-20%.

Congressional Recommendations. H.R. 3425, as enacted, and three of the pending debt reduction bills address the debt sustainability targets. Since the Jackson and Feingold bills (H.R. 772 and S. 1636) propose full debt cancellation for all sub-Saharan African nations, debt targets would not be an issue.

- The International Debt Relief bill (title V of H.R. 3425, P.L. 106-113), the Debt Relief for Poverty Reduction Act of 1999 (H.R. 1095) and the Debt Relief for Poor Countries Act of 1999 (S. 1690) all propose lowering the debt-to-export eligibility threshold to 150%. They further recommend deeper debt reduction by setting a sustainability level of 150% debt-to-exports ratio. H.R. 1095 and S. 1690 go beyond H.R. 3425 and Administration policy by requiring that annual debt service payments are not larger than 10% of annual government revenues generated from internal sources. This requirement especially could expand the amount of debt relief

[28] World Bank. *Perspectives on the Current Framework and Options for Change.*

provided and hasten the benefits for the debtor country. Although there are no estimates of how much debt would have to be canceled to meet the 10% requirement, it appears that debt service payments would fall dramatically for some. Mozambique, for example, with government revenues of about $448 million, paid $104 million servicing its debt in 1997 and is projected to pay $71 million on average through 2005 now that it has reached its completion point.[29] Under the 10% ceiling, Mozambique would have paid $45 million in 1997. While the relief provided may be dramatic, the costs to creditor governments and institutions might be as well.

- The Waters bill (H.R. 2232) would extend deeper and broader debt relief than other pending initiatives, except for the HOPE for Africa legislation. The debt-to-export ratio eligibility threshold would fall to 100%, making about 38 African nations eligible.[30] The amount of debt relief received would deepen due to a requirement that a country's debt burden be reduced so that the NPV of debt-to-exports does not exceed 100% and that annual debt service payments are not larger than 5% of annual government revenues generated from internal sources. As noted above, the latter target especially would deepen the debt relief and accelerate its impact for financing poverty programs. The costs to creditor governments and institutions also would grow, perhaps significantly.

Performance Requirements Are Flawed. For years, NGOs and many developing countries especially have argued that IMF-sponsored structural adjustment programs have in most cases not achieved their goals of expanding economic growth, while inflicting a substantial negative impact on poverty reduction efforts in poor countries. As such, the HIPC requirement to maintain such a reform arrangement through the IMF's Enhance Structural Adjustment Facility (ESAF), these critics asserted, was not appropriate for HIPC eligibility. They believed that ESAF programs should be replaced with alternative performance links with a poverty focus emphasis. Debtor countries would be required to establish social development plans that would result in increased spending on education, health care, environmental protection, and other basic services.[31]

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[29] World Bank. *Global Development Finance, 1999, volume II.* Also, *HIPC Initiative: Perspectives on the Current Framework and Options for Change, Annex 1, p. 46; and Modifications to the HIPC Initiative,* July 23, 1999, p. 23.

[30] Possible African countries that would not qualify because they are not "IDA-only" borrowers or have a debt-to-export ratio below 100% are Botswana, Eritrea, Gabon, Lesotho, Mauritius, Namibia, Nigeria, Seychelles, South Africa, and Zimbabwe.

[31] Uganda, the first country to receive full HIPC benefits, now deposits $40 million it saves annually from debt write-offs into a special poverty action fund. Ugandan officials argue, that while creditor governments and institutions have set international poverty reduction targets, they have not provided the means to finance them. Debt reduction targets based on debt service levels rather than export earnings, they say, would provide needed resources. (The Guardian, May 26, 1999, p. 11.)

The IMF rejects claims that ESAF structural reform programs have failed, arguing that external evaluations have found that such activities have had positive effects on growth and income distribution in poor countries.[32] Bank and Fund staff further stress that the HIPC Initiative has always pursued dual objectives of achieving economic growth and alleviating poverty. Requiring countries to develop comprehensive plans for poverty reduction and social development, they caution, may be beyond their current capacity because of financial considerations. Sufficient time would be required to design such initiatives, they say, a factor that might be counter-productive to efforts to accelerate the pace of debt relief. According to other observers, given the evidence that HIPC will not provide much in the way of early debt service relief for some countries, a requirement that debtor governments increase spending on basic social programs, derived from debt reduction "savings," may be asking countries to spend funds that will not have been generated.

G-7 Proposal. Although G-7 leaders continue to support IMF and World Bank policy reform programs for HIPC countries, they issued a strong recommendation for the Bank and Fund to build an enhanced poverty reduction framework, especially within the IMF's ESAF programs. G-7 finance ministers called on the Bank and Fund to help HIPC countries design and implement poverty reduction plans through a transparent and participatory process that will ensure that debt relief savings would be invested in health, education, and other social programs.

World Bank/IMF Modifications. The Bank and Fund now agree that an enhanced HIPC initiative should include a stronger framework for poverty reduction, although the details on how this might affect ESAF policy reform programs or requirements for debtor countries to establish social development plans remain to be worked out. IMF Board Directors have noted that proposals for interim assistance and front-loaded relief on the part of the multilaterals could be a means to help HIPC nations to find additional resources for social and other poverty-related activities. Moreover, the IMF will require in the future that countries receiving debt relief must develop and implement a Poverty Reduction Strategy Paper that has the full participation of civil society. Fund officials have further implied that successful implementation of these strategy papers may become a factor in IMF decisions whether to proceed with ESAF loan transfers. (The IMF has subsequently re-named ESAF as the Poverty Reduction and Growth Facility (PRGF).)

Congressional Recommendations. Of the bills introduced and considered in the 106th Congress, H.R. 3425, as enacted, is the only initiative that expressly requires a country to adhere to a "social and economic reform program." None of the other broadly focused debt reduction bills would continue ESAF reform program compliance as a requirement for HIPC eligibility. On the other hand, each, including H.R. 3425, either requires or recommends additional standards connected with strengthened poverty reduction spending on the part of debtor governments. The issue of ESAF policy reforms linked with debt reduction eligibility was extensively debated during the House Banking Committee markup of H.R. 1095 on November 3.

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[32] See, for example, IMF. *External Evaluation of the ESAF.* 1998.

- H.R. 3425, as enacted, requires that a qualified debtor nation maintain a social and economic reform program that, among other things, is designed through transparent and participatory processes, integrates poverty-oriented development strategies and ensures that the debt savings are used to reduce poverty and environmental degradation, and expands the private sector. The legislation further requires the U.S. to work through the IMF to modify the Fund's ESAF programs, incorporating provisions with a poverty reduction focus.

- H.R. 1095 would directly strengthen the poverty reduction requirements of HIPC. The bill, as reported, requires that any economic and social conditions placed on country eligibility include measures for poverty reduction and environmental protection. The bill further adds an additional requirement that in order to receive relief, a debtor nation must establish a "Human Development Fund," into which funds saved from debt relief measures be deposited and spent on basic social services. Through this, proponents intend to ensure that debtor governments invest more of the country's resources in education, health, clean water, and other poverty focused programs. During the markup session, the Committee adopted an amendment by Representative Frank aimed at assuring that a debtor nation's eligibility for U.S. debt relief would be determined not by the terms of an IMF structural adjustment program, but by conditions established by the United States, including those required by H.R. 1095. Another amendment by Representative Sanders "urges" the President to seek changes in the HIPC process that would eliminate the need for an IMF reform program as a condition of eligibility. Other amendments intended to bar the requirement for IMF structural adjustment programs or to cancel debt unconditionally were either withdrawn or defeated.

- S. 1690 includes similar poverty spending requirements as in H.R. 1095, plus an additional condition that governments use the debt relief savings for economic reform programs that promote sustainable development with benefits shared widely throughout the population.

- The HOPE for Africa Act (H.R. 772) authorizes unconditional debt relief for African nations, thereby eliminating any pre-conditions regarding ESAF or other policy reform requirements. The Jackson bill, however, includes a requirement for the Secretary of State to encourage African governments to allocate 20% of their national budgets to support the U.N.'s 20/20 Initiative.[33]

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[33] The U.N. 20/20 Initiative calls on foreign aid donors to focus 20% of their assistance on poverty reduction programs and aid recipient governments to commit 20% of their revenues to basic social programs.

- The companion HOPE for Africa Act (S. 1636) includes standard legislative eligibility requirements that countries not violate human rights, promote terrorism, engage in drug production or trafficking, or spend excessive amounts on their militaries. Like H.R. 772, the bill endorses that African governments support the 20/20 Initiative.

- The Debt Relief and Development in Africa Act of 1999 (H.R. 2232) explicitly prohibits the use of structural adjustment programs as a condition for HIPC eligibility. The Waters bill, like H.R. 1095, also requires debtor nations to establish a Human Development Fund which will be used to expand government financial allocations for basic social programs. In addition, H.R. 2232 further mandates that countries create a Natural Resource Development Plan that will clearly identify, among other things, which natural resources are being developed, to what extent companies involved in their development will profit, the quantity of revenues that will be generated through such development and how the government plans to use the money, and government conservation and environmental protection proposals. The bill authorizes the U.S. Agency for International Development and directs international financial institutions to assist debtor countries in creating the Plan and negotiating the terms of contracts with foreign investors involved in the development of natural resources. Further, H.R. 2232 bans U.S. Export-Import Bank support for any private American business involved in natural resource development in debtor nations unless there is full public disclosure of their contracts with the government.

- The DEED Act of 1999 (H.R. 3049) conditions any future transfers of U.S. resources to the IMF on the abolishment of ESAF. Instead of a poverty-focused requirement included in most other debt relief bills, the McKinney-Rohrabacher legislation stipulates that only governments that were chosen through free and fair elections and which promote civilian control of the military, the rule of law, and strengthened political, legislative, and civil institutions of democracy, are eligible for debt relief.

Cost Implications of Enhanced HIPC Debt Relief Measures

While approval for altering HIPC policy, terms, and conditions has occurred, there is less certainty whether sufficient funds will be committed to implementing the considerably higher costs of a reformed HIPC initiative. The World Bank/IMF estimate that changes announced at their annual meetings in September will increase HIPC costs from about $12.5 billion to $27.4 billion.

Cost Burden-sharing. Financing and establishing some burden-sharing arrangement among participating creditor governments and institutions could be a difficult hurdle in future HIPC reform negotiations. World Bank/IMF estimates show that expenses for bilateral creditors participating in HIPC through Paris Club debt relief would increase from $5.2 billion under the previous framework to $11.5 billion for an enhanced HIPC program. Multilateral creditor costs would grow from $6.2

billion to $13.3 billion, with the World Bank share climbing from $2.4 billion to $5.1 billion, and that of the IMF from $1.2 billion to $2.1 billion.

Multilateral Financing and IMF Gold Revaluation. For the costs of multilateral debt write-downs under the original HIPC structure, the World Bank and IMF agreed to draw from their own resources while other regional MDBs would require some assistance from bilateral donors and their contributions to the HIPC Trust Fund. Under an expansion of HIPC, World Bank officials seem more cautious about the ability of the Bank to cover the additional costs and suggest they may have to "borrow" International Development Association (IDA) resources to implement debt relief. This would reduce IDA lending to these same poor countries, at least in the short term, raise concern among international development proponents who oppose extending debt relief at the expense of development aid.

For the IMF, the situation is more complicated. The Fund had planned to finance part of its participation under the earlier framework from the sale of gold. After gaining the support of G-7 governments, including the United States, for the gold sale, the original plan was abandoned in the face of significant opposition from gold mining business interests and gold-producing countries in Africa who believe the sale would force the price of gold down. The IMF modified its gold proposal so that through a complicated process, some of the Fund's gold assets would be revalued from the "book" price of about $48 an ounce to the current world market price of more than $260 per ounce. In short, the "profit" from the revaluation of gold could be used for writing off poor country debt owed the IMF.[34] As noted above, Congress approved legislation (H.R. 3425) that allow the U.S. to support the proposed mechanism, although with certain limitations.

U.S. Costs. For the United States, full implementation of the enhanced HIPC modifications requires additional appropriations of $970 million provided over several years. President Clinton had earlier asked Congress to provide $120 million for debt relief (including $50 million for the HIPC Trust Fund) in FY2000. After G-7 agreement to expand the terms of HIPC, the White House, on September 21, 1999, amended its pending request, adding $850 million for a total of $970 million. Of this, $370 million was sought for FY2000, with the balance provided in increments of $200 million in each the following three years. Of the total, $650 million would pay for U.S. contributions to the HIPC Trust Fund.

These estimates, however, are highly tentative and could fluctuate widely. For example, if conditions in Sudan, Somalia, and Liberia would change so that it became possible for their participation within HIPC, U.S. expenses, especially for bilateral debt reduction, would grow considerably. Since these three countries account for roughly $2 billion of the $6 billion owed the U.S. by the 41 HIPC nations, the costs of bilateral debt reduction for the United States might grow by as much as one-third Moreover, at the World Bank/IMF meetings, President Clinton announced that the United States was prepared to cancel 100% of all bilateral debt, going beyond the 90% level endorsed by the G-7 for non-concessional loans. This will push U.S. costs up, although the White House says the initiative can be accommodated within the

[34] See footnote 13, above, for details on how the process would work.

recent budget amendment. A main reason why U.S. costs for an expanded HIPC would fall heavily on financing the multilateral dimensions rather than the bilateral portion of debt owed directly to the United States is because the U.S. has previously written off a large portion of concessional debt and has not extended foreign aid on a loan basis for over 15 years.

Thus far, Congress has supported only a very small portion of the President's funding request for debt relief. As cleared for the White House on October 6, H.R. 2606, the FY2000 Foreign Operations Appropriations bill, provided only $33 million for debt relief programs, none of which could be transferred to the HIPC Trust Fund. President Clinton vetoed H.R. 2606 on October 18, largely because of spending reductions, including those for debt relief measures. More recently, on November 18 and 19, the House and Senate, respectively, approved another Foreign Operations appropriations (H.R. 3422) that increases debt reduction spending to $123 million for FY2000 but still bars the use of funds for multilateral debt relief. President Clinton signed H.R. 3422 into law (as part of the Consolidated Appropriations Act, FY2000, P.L. 106-113) on November 29, but said he would seek the remaining HIPC appropriations in subsequent budget requests.

Table 7. Comparison of Debt Reduction Initiatives—Existing and Proposed

	HIPC Terms, 1996 to mid-1999	**Expanded HIPC G-7 Proposal-June 1999**	**International Debt Relief (title V of H.R. 3425, PL 106-113)**	**Debt Relief for Poverty & Development (HR 1095)**
Goal	For good economic performing countries, debt level reduced to a “sustainable” level.	For good economic performing countries, debt reduced so countries can meet basic needs and spur economic growth.	To authorize actions for bilateral debt relief and to improve multilateral debt relief.	To improve existing debt relief mechanisms & ensure savings from debt can-cellation will finance poverty reduction
Country Eligibility	- good economic record -World Bank/IMF program -IDA-only status[a] -NPV debt-to-export ratio over 200% -NPV debt-to-fiscal revenue ratio over 280%	- good economic record -IDA-only status[a] -NPV debt-to-export ratio over 150% -NPV debt-to-fiscal revenue ratio over 250%	-IDA-only status[a] -NPV debt-to-export ratio over 150% -NPV debt-to-fiscal revenue ratio over 250% -maintain a social and economic reform program	-IDA-only status[a] or Nigeria -NPV debt-to-export ratio over 150% -NPV debt-to-fiscal revenue ratio over 250% -“urges” no ESAF program requirement.
Other Eligibility Criteria	---	For U.S., legislative requirements regarding human rights, terrorism, drug cooperation, excessive military spending, and expropriation of U.S. owned property.	Legislative requirements regarding human rights, terrorism, drug cooperation, and excessive military spending.	Legislative requirements regarding human rights, terrorism, drug cooperation, excessive military spending, slavery practices, and SE Asian countries failure to cooperate on POW/MIA matters. President also to consider child labor conditions & workers rights, and a country’s female genital mutilation record.
Poverty Focus Requirement	Nothing explicit.	Modify World Bank & IMF programs to emphasize poverty reduction; channel debt relief savings into education, health and other social programs.	Modify World Bank and IMF programs to be consistent with debtor country Poverty Reduction Strategy Papers.	Deposit debt savings into a Human Development Fund to finance poverty reduction programs; broaden access to basic social services, education, health, clean water, environmental protection.
Number Potentially Eligible	29 (25 in Africa)	36 (30 in Africa)	36 (30 in Africa)	46 (35 in Africa)

	HIPC Terms, 1996 to mid-1999	Expanded HIPC G-7 Proposal-June 1999	International Debt Relief (title V of H.R. 3425, PL 106-113)	Debt Relief for Poverty & Development (HR 1095)
Multilateral Debt Relief: **Targets and Ratios**	Reduction in debt owed so that: NPV debt-to-exports ratio is 200-250% For very open economies,[b] NPV debt-to-fiscal revenue ratio is no more than 280%	Reduction in debt owed so that: NPV debt-to-exports is 150%. For very open economies,[b] NPV debt-to-fiscal revenue ratio of 250%	None stated	"Urges" the reduction in debt owed so that: NPV debt-to-exports is 100%. Annual debt service consumes no more than 10% of government revenues raised domestically.
Bilateral Concessional Debt Relief	Not applicable.	100%	None stated	"Urges" 100%
Bilateral Non Concessional Debt Relief	Up to 80%	Up to 90%; higher in exceptional cases. U.S. policy 100%	100%	"Urges" 100%
Timing	*Bilateral:* Begin after 3 years of an IMF reform program. *Multilateral:* Begin after up to 6 years of an IMF reform program.	Retain two stage, 6-year process, but with the possibility of a significantly shorter second stage; a "floating completion point." *Multilateral:* Early cash flow relief by international institutions.	U.S. should "urge" the World Bank and IMF to complete by 12/31/00 a debt sustainability analysis for as many HIPC countries as possible.	*Bilateral:* Immediate, after Human Development Fund created. *Multilateral:* After Human Development Fund and Natural Resources Development Plan created.
Financing	Bilateral creditors through Paris Club arrangements. World Bank & IMF with own resources. Other multilaterals with own resources and contributions from creditor governments.	Bilateral creditors through Paris Club arrangements. Authorize the IMF to sell gold and utilize a reserve account to finance its participation. Bilateral donors may have to increase Trust Fund contributions.	*Bilateral:* Unspecified authorization of appropriations through 2004. *Multilateral:* none stated. Authorizes IMF "off-market" gold sale that will generate 2.226 billion Special Drawing Rights. Only 9/14 of the earnings from investments of the gold sale profits can be used.	*Bilateral:* Unspecified authorization of appropriations through 2004. *Multilateral:* Unspecified authorization of appropriations to the HIPC Trust Fund through 2004. Authorizes IMF "off-market" gold sale up to 14 million ounces.
HIPC eligibility responsibility	World Bank/IMF	World Bank/IMF	World Bank/IMF	For bilateral debt relief, terms set by U.S. government.

	HIPC Terms, 1996 to mid-1999	Expanded HIPC G-7 Proposal-June 1999	International Debt Relief (title V of H.R. 3425, PL 106-113)	Debt Relief for Poverty & Development (HR 1095)
New Aid to HIPCs	No position.	Preferably grant aid.	None stated	"Sense of Congress" for grant aid only.

Sources: World Bank, U.S. Department of the Treasury, G-7 Finance Ministers Report to the G-7 Economic Summit (6/18/99), Department of Treasury testimony before House Banking Committee (6/14/99), Bread for the World, and Oxfam America.

[a] Countries eligible to borrow only from the World Bank's concessionary lending facility, the International Development Association. Generally, countries with an annual per capita GNP of $925 or less are designated as "IDA-only."

[b] Very open economies under the original HIPC program referred to those countries where the export-to-GDP ratio exceeds 40% and fiscal revenue-to-GDP exceeds 20%. Under the G-7 recommendation and H.R. 1095, "very open economies" are those with an export-to-GDP ratio above 30% and fiscal revenue-to-GDP above 15%.